

NEW APPLICATION



0000150504

BEFORE THE ARIZONA CORPORATION COM.

RECEIVED

COMMISSIONERS

2013 DEC 19 A 11:53

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

IN THE MATTER OF THE APPLICATION OF
VALLEY TELEPHONE COOPERATIVE, INC.,
AN ARIZONA CORPORATION, FOR A
HEARING TO DETERMINE THE EARNINGS
OF THE COMPANY, THE FAIR VALUE OF
THE COMPANY FOR RATEMAKING
PURPOSES, AND TO INCREASE
RESIDENTIAL RATES AS NECESSARY TO
COMPENSATE FOR THE RATE IMPACTS OF
THE FCC'S USF/ICC TRANSFORMATION
ORDER

DOCKET NO. T-01847A-13-0457

APPLICATION

Arizona Corporation Commission

DOCKETED

DEC 19 2013

DOCKETED BY

1 Valley Telephone Cooperative, Inc. ("Valley Telephone"), an Arizona non-profit,
2 member-owned, corporation, hereby applies pursuant to A.R.S. § 40-250 and the Commission's
3 Rule R 14-2-103 for a determination of Valley Telephone's earnings and the fair value of its
4 investment and requests that its residential rates be increased as necessary to compensate for the
5 rate impacts of the Federal Communication Commission's November 18, 2011, USF/ICC
6 Transformation Order ("USF/ICC Order").

7 I. BACKGROUND

8 On November 18, 2011, the Federal Communications Commission issued the USF/ICC
9 Order. The USF/ICC Order transitions the outdated federal universal service programs and most
10 inter-carrier compensation systems into a new Connect America Fund ("CAF"). The FCC's
11 press release characterized the USF/ICC Order as "the most significant policy step ever taken to
12 connect all Americans to broadband."

1 The USF/ICC Order will reduce inter-carrier compensation rates to zero by July 1, 2020,
2 for rate of return companies, with limited recovery from customers and partial recovery from the
3 CAF. The recovery from the CAF will phase out over time at 5% annually.

4 Valley Telephone is a small rate-of-return regulated Incumbent Local Exchange Carrier
5 ("ILEC"). Of particular importance to Valley Telephone and other rural ILECs, the USF/ICC
6 Order adds new rules that will reduce federal high-cost loop support to carriers by the amount
7 their flat-rate residential local service rates fall below a specified annual urban rate floor.¹ The
8 rate floor includes, if any, state subscriber line charges, state universal service fees, and
9 mandatory extended area service charges. The FCC's order established local residential rate
10 floors of \$10.00 as of June 1, 2012, and \$14.00 as of June 1, 2013, with the floor thereafter being
11 determined annually by the FCC's Wireline Competition Bureau, based on a nationwide
12 average.²

13 The Wireline Competition Bureau has not determined the rate floor to be in effect for
14 June 1, 2014. The nationwide residential average rate was \$15.62 in 2008. Estimates for the
15 2013 nationwide residential average rate range from \$17.00 to \$18.50, so the 2014 rate floor will
16 be substantially higher than 2013's \$14.00 floor.

17 Federal and state support funding are vital to a robust telecommunications network in
18 high cost areas. To maintain federal loop support, Valley Telephone and other rural ILECs must
19 increase local rates to the FCC-mandated residential rate floors. Otherwise, the amount of
20 federal support funds will be reduced dollar-for-dollar for each customer by the difference
21 between the existing local rate and the new rate floor. If local rates are not increased, the new
22 FCC rules will reduce funds coming to the state of Arizona and negatively impact customers
23 living in high-cost areas in the state.

¹ 41 C.F.R. § 54.318.

² USF/ICC Order paragraph 236 states the most recently available nationwide average local rate from 2008 was \$15.62.

1 Low customer density makes Valley Telephone dependent on high-cost federal support
2 mechanisms. It is important that the company be allowed to increase local rates, to the FCC
3 determined annual rate floors, in order to maintain its existing federal support.

4 The Wireline Competition Bureau is not expected to set the 2014 rate floor until the end
5 of the first quarter of 2014. If the rate floor is not set until 2014, it could be difficult for the
6 Commission to timely review an application filed thereafter and authorize new rates for Valley
7 Telephone by June 1, 2014. This would cause Valley Telephone to lose federal high-cost
8 support dollar-for-dollar by the amount the new rate floor exceeds current \$14 residential rates.

9 To prevent the loss of federal support, Valley Telephone requests that the Commission
10 approve a local residential rate of up to \$19.00. The actual rate implemented would be set at the
11 lower of the approved 2014 residential rate floor and \$19.00. Valley Telephone will file the new
12 FCC rate floor as soon as it is available.

13 **II. VALLEY TELEPHONE**

14 Valley Telephone Cooperative, Inc. is a non-profit, member-owned, corporation duly
15 organized and existing under and by virtue of the laws of the State of Arizona. Valley Telephone
16 is authorized to engage in and is now engaged in the conduct of a general communications
17 business within the State of Arizona.

18 **III. SUMMARY OF REQUEST**

19 This application is made pursuant to the provisions of A.R.S. §§ 40-250 and 40-367, and
20 Commission Rule R14-2-103. The Commission last considered Valley Telephone's rates in
21 Docket No. T-01847A-12-0485 which resulted in Commission Decision 73872 issued on May 8,
22 2013. Decision No. 73872 authorized Valley Telephone to raise its residential one-party rates to
23 \$14.00/month, effective June 1, 2013. As discussed above, these rates are substantially below
24 the expected federal rate floor that will go into effect on June 1, 2014.

25 Valley Telephone is aware that many parties, including the Commission, have appealed
26 the USF/ICC Order. However, in the meantime, Valley Telephone and other rural ILECS must

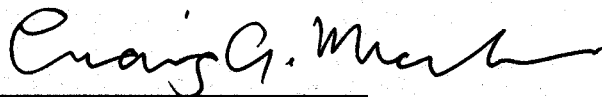
1 comply with all provisions of the USF/ICC Order and will remain subject to the increased local
2 residential rate floors and the corresponding losses of federal support funds.

3 Valley Telephone's loss of federal support funds would be particularly difficult to bear.
4 As the attached schedules demonstrate, Valley Telephone's return on investment is already very
5 low. Losing federal support funds will only drive earnings lower.

6 In connection with this application, Valley Telephone has filed exhibits which include a
7 schedule of the specific rate changes requested and the impact of the revenue generated on the
8 company's financial position. Valley Telephone asks that the Commission determine the fair
9 value of the company's investments for ratemaking purposes and stipulates to use original cost
10 less depreciation for those purposes. Because the next opportunity to affect federal support
11 funds is June 1, 2014, Valley Telephone further asks that the Commission approve a local
12 residential rate of up to \$19.00. At \$19.00, Valley Telephone's return on rate base would still be
13 only 2.09%. Valley Telephone asks that the customer notice inform customers of this potential
14 range of rate increases.

15 To facilitate processing of this application, Valley Telephone asks that the Commission
16 waive any provisions of Commission Rule R14-2-103 not required by the Arizona Constitution
17 and laws.

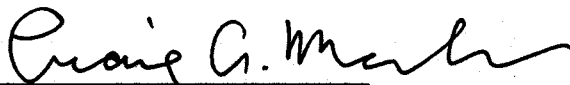
18 Respectfully submitted on December 19, 2013.

19
20
21 

22 Craig A. Marks
23 Craig A. Marks, PLC
24 10645 N. Tatum Blvd., Ste. 200-676
25 Phoenix, Arizona 85028
26 (480) 367-1956 (Direct)
27 (480) 367-1956 (Fax)
28 Craig.Marks@azbar.org
29 Attorney for Valley Telephone Cooperative, Inc.

Original and 13 copies filed
on December 18, 2013, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

By: 
Craig A. Marks